Financial Markets

Irving Trust

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The bond markets remained on a firm footing, and prices drifted up over most of the week. Trading was generally light as market activity wound down in anticipation of the holiday season and year-end. However, significant retail interest did emerge at Wednesday's $3.5 billion auction of two-year Treasury notes. The yield, 11.43%, was in line with most expectations; but the volume of bids--$8.2 billion--was unusually heavy and suggested some improvement in market sentiment.

Despite the diversity of market opinion over whether the economy is or is not now in a recession, and whether interest rates have or have not peaked, there is a widening consensus that within the next few months interest rates will probably be below current levels and falling. As a result, some of those investors who have steadfastly chosen to remain short and liquid--and take advantage of very generous money market rates--may now be willing to give up current income and step out a little further on the yield curve, but not too far. The Treasury's $2.5 billion four-year note auction attracted only modest interest and produced a somewhat higher than expected yield of 10.52%.

Contributing to the markets' positive tone was the convincing evidence that higher interest rates are beginning to affect activity in the housing industry, which has tended to be the cutting edge of credit policy. New starts were down 14% in November, to a 1.5 million unit annual rate, the weakest since the weather-depressed pace of February. Actually, the Federal Reserve's October credit tightening had an immediate impact; mortgage commitments at the nation's S&L's dropped sharply in October and were down about 2 1/2% from year-earlier levels, the largest shortfall since the winter months. Since then, the cost of new money, which now flows almost entirely through the issuance of six-month money market certificates bearing high market rates of interest, has averaged close to 12%. The high cost of funds, in combination with usury ceilings in many states, has in all likelihood led to an even more substantial curtailment in mortgage commitments in November and December. On Wednesday, however, Congress acted to suspend all states' mortgage usury ceilings until March 31. President Carter is expected to sign the legislation soon. This action will tend to support the housing market although the current high interest rate structure will still put a damper on housing starts.

Financial Markets will not be published next week.

SEASON'S GREETINGS TO ALL OUR READERS!

Glenn C. Picou

Irving Trust

Money Market Rates

	12/21/79 (noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company			
Short-term loans to substantial depositors with highest credit rating	15.25%	15.25%	11.50%
Effective since	12/7/79		
Discount Rate at Federal Reserve Bank	12.00	12.00	9.50
Federal Funds	13.88	14.25	10.00
Repurchase Agreements	12.63	13.65	9.70
U.S. Treasury Issues - Yields			
Bills			
3 months	12.65	12.76	9.60
6 months	12.66	12.95	10.15
1 year	11.88	12.00	10.45
Coupons			
2 years	11.38	11.88	9.95
4 years	10.54	10.86	9.45
7 years	10.36	10.40	9.25
10 years	10.42	10.38	9.15
Long Bond	10.16	10.14	8.95
Negotiable Certificates of Deposit-Secondary Market			
1 month	13.30	14.00	10.45
3 months	13.40	13.95	11.05
6 months	13.50	13.85	11.60
1 year	12.50	12.50	11.40
Bankers' Acceptances			
1 month	13.50	14.00	10.90
3 months	13.60	14.15	11.36
6 months	13.55	14.05	12.09
Eurodollar Deposits			
1 month	14.69	14.50	11.56
2 months	14.69	14.81	11.75
3 months	14.75	14.81	11.94
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	11.00	13.25	9.00
1 month	13.50	13.63	10.25
3 months	12.00	12.00	10.00
Bank Holding Companies			
1 month	13.38	13.75	10.25
Dealer Placed:			
3 months	13.50	13.75	10.50
New Aa Corporate Utility Bond	11.85	11.85	9.50
Tax Exempt			
6 month Project Notes	5.75	6.05	5.20
12 month Project Notes	N/A	N/A	5.65
20 year AAA Bond	6.75	6.70	6.20

This information represents prevailing market yields. It should not be construed as an offering. All yields are on the offered side of the market.

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